WORLD ALLIANCE
of International Financial Centers

SUPPORTING SMEs WITH SUSTAINED POST-PANDEMIC ECONOMIC RECOVERY

WAIFC SURVEY: INTERNATIONAL FINANCIAL CENTERS, NATIONAL GOVERNMENTS, CENTRAL BANKS, REGULATORS AND SUPRANATIONALS - RELIEF MEASURES TO SUSTAIN THE PRIVATE SECTOR AND SMEs

Imprint

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PREFACE

As the COVID-19 pandemic took hold across the world in 2020, we began to see the scale of the impact it would have on SME development and the availability of SME finance. The inevitable economic downturn placed severe strain on SMEs globally and demanded a national and international response. According to World Bank figures 'SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in 'emerging economies.'

The World Alliance of International Financial Centers (WAIFC), promoting the benefits of sharing best practices and new financial and regulatory initiatives, commissioned a survey of its members on the ways that financial centers globally are responding to the economic crisis, specifically asking for information on how urgently needed support to SMEs is being developed, directed and delivered. The survey also requested information on the new activities and programs developed by national governments, central banks and regulators to support SMEs in response to the pandemic. And further, WAIFC reviewed the responses of the Supranationals in developing multi-national SME economic recovery programs.

The results of the survey, covering responses from 16 international financial centers globally, members of WAIFC, are presented in this Report. What is revealed by the survey and our follow-up review, is that the response, not just from financial centers and the financial industry across the world, but at national and international policy and regulatory level, has been urgent, decisive and targeted in support of the SME sector. The survey reveals several local and national initiatives that can be shared and adopted elsewhere.

And it reinforces the vital role of the international banking sector as well as the non-traditional access-to-financing sector, in responding to the scale of the crisis and developing bespoke and immediate support measures to mitigate and recover from it.

In parallel to the SME Survey, WAIFC's Regulations Work Stream reviewed the role of national regulators in offering support to SMEs: 'SMEs Finance: How Regulators Can Ensure Speedy and Sustainable Recovery from COVID-19'. This Report offers a number recommendations that Regulators may consider, and with a direct relevance to the SME survey, we also present its findings in this paper, and I would urge you to read the full Regulations Report as it reveals initiatives for potential adoption in fellow jurisdictions.

The World Alliance for International Financial Centers is pleased to share this Report on SME Economic Recovery as part of our contribution to our broader work on the role of financial centers in supporting the global economic recovery. We welcome the opportunity to discuss our findings and recommendations with and across the international financial community, including the International Network of Financial Centers for Sustainability (FC4S).

Jennifer Reynolds

WAIFC Chairwoman

Supporting SMEs with sustained post-pandemic economic recovery

EXECUTIVE SUMMARY (1/2)

Alarmed by the disruptions caused by the COVID-19 pandemic, the World Alliance of International Financial Centers (WAIFC) launched, among other projects, a workstream to look into how international financial centers, national authorities / Central Banks and the Supranationals are responding to the challenges presented to SMEs by the COVID-19 pandemic.

In particular, the SME workstream focuses on financial stability and the economic support measures offered to SMEs during this period of unprecedented global crisis. The WAIFC developed and distributed a survey and questionnaire to its members in order to provide an overview of measures taken by the above-mentioned stakeholders and the Supranational organizations to support SMEs in post-pandemic recovery. The survey results are presented in this Report.

Alongside the SME international survey, WAIFC also considered SME support mechanisms and recommendations in relation to Regulatory and Sustainable Finance measures via its focused workstreams. Whilst this Report highlights the responses from national authorities, IFCs and the Supranationals, a number of key comparative themes emerge that cover regulatory, financial, legislative and promotional activities. And as well as direct financial support, including salary, regulatory and tax 'easing' measures, responses from IFCs indicate that more so than ever before, SMEs are in need of access to information, markets, and technology to become more productive, efficient, and resilient.

The survey results show that all countries and IFCs, notably those in the category of emerging markets, have responded urgently and innovatively to the crisis. A context to many of the measures that have been taken are reflected in WAIFC's Regulation and Sustainable Finance recommendations:

- Ensure gradual return to normal;
- Reduce tariffs as far as possible to help SMEs grow by trading internationally;
- Facilitate gathering operational and financial information for commercial and development banks to support SMEs' credit applications;
- Request credit institutions to design special products tailored for SMEs;
- Consider expanding adoption of World Bank's Credit Guarantee Scheme (CGS) for SMEs
- Remove barriers that hinder SMEs' expansion into new markets;
- Facilitate SMEs' access to funding through capital markets and other sectors.

Supporting SMEs with sustained post-pandemic economic recovery

EXECUTIVE SUMMARY (2/2)

WAIFC's Sustainable Finance workstream also proposes a number of SME support measures:

> Develop and build sustainable finance expertise, capacity and knowledge across the financial industry

> Leverage the digitalization of financial services in order to ensure that sustainable finance is fully embedded into the financial industry of the future

> Foster the growth and supply of new financial instruments that direct capital toward sustainable assets and investment, through explicit actions to support financial innovation

> Translate different international and national frameworks, principles and standards into practical and implementable guidance and actions

SURVEY PARTICIPANTS

#	Financial center	Country	Country economy
1	Belgian Financial Center (BFC)	Belgium	Developed market
2	Toronto Finance International (TFI)	Canada	Developed market
3	Frankfurt Main Finance (FMF) and Stuttgart Financial	Germany	Developed market
4	Paris Europlace (PE)	France	Developed market
5	Hong Kong Financial Services Development Council (FSDC)	Hong Kong	Developed market
6	Astana International Financial Centre (AIFC)	Kazakhstan	Emerging market
7	Luxembourg for Finance (LFF)	Luxembourg	Developed market
8	Economic Development Board (EDB)	Mauritius	Emerging market
9	Casablanca Finance City (CFC)	Morocco	Emerging market
10	Capital Market Authority (CMA)	Oman	Emerging market
11	Qatar Financial Centre (QFC)	Qatar	Emerging market
12	Moscow International Financial Centre (MIFC)	Russia	Emerging market
13	Kigali International Financial Center (KIFC)	Rwanda	Emerging market
14	Abu Dhabi Global Market (ADGM) – *survey results provided in confidence*	UAE	Emerging market
15	TheCityUK	UK	Developed market

Supporting SMEs with sustained post-pandemic economic recovery

SURVEY RESULTS

The scale and complexity of COVID-19 has brought about some of the most challenging economic conditions that countries and authorities have ever encountered. The pandemic has placed immense stress on businesses of all sizes and across all sectors.

In order to respond quickly in the early stages of the pandemic to ensure that SMEs were able to manage the initial economic shock, safeguarding millions of jobs and putting the country in the best position to recover - IFCs, governments, central banks, regulatory authorities, industries and all related stakeholders have initiated different support measures.

The Survey results are presented below, under the headings of 'Developed Markets' and 'Emerging Markets' and including a further section on the support measures provided by the Supranationals.

Developed Markets (1/3)

Note: The highlighted measures are support instruments used by several countries

IFCs:

> Financial Centers can play a predominant role to support economic recovery. Given the magnitude of the crisis, the first contribution could prevail in educating and explaining the scope and consequences of the pandemic toward businesses and SMEs.

> Secondly, but not least important, IFCs could play a relevant role as policy advisors, offering an enriched platform to capitalize policies discussions involving key people from public, private and third sector.

“Stuttgart is the capital city of the state of Baden-Württemberg. In addition to the actions taken by the federal government, the state of Baden-Württemberg has introduced several measures to meet the needs of SMEs, including providing an entrepreneurial salary, grants for the catering and hotel industries, bus companies and redemption grants up to a maximum of €150,000 for the event and cultural industries.”

Stuttgart Financial

GOVERNMENT, CENTRAL BANKS, REGULATORY AUTHORITIES, INDUSTRIES:

Government

> Tax relief is an expansive stimulus to strengthen the economy. Tax deferrals, tax exemptions, refunds, and relaxation of tax enforcements are some of the policies that could help to overcome the recession.

> Specific waiving measures could be considered towards and financing and labor. Providing direct financial aid to highly affected sectors, start-ups, and micro-businesses could bend the recessional trend and activate the consumption.

> As the whole supply chain has been holistically jeopardized, it's vital for Governments to act quickly and precisely. This way, the flexibilization of the labor-force should be a top priority discussion for policy-makers. Certainly, the measure should be subsequent by a package of benefits to look after unemployment.

> In addition, SMEs could be supported through a series of measures like social contribution aids, income tax relief, and shortened working-weeks.

Developed Markets (2/3)

Government and Banking

> The banking industry and Government have the ability to team for a successful economic recovery. ***Concessional loans***, as well as government-guaranteed loans, are the spotlights for a prompt SME cashflow response. There are other winning elements that should also be combined in the equation, such as competitive interest rates and payments extensions.

One of the numerous lessons from the pandemic is that the new normal will be different: we have to adapt and envision a world where many employees will stay home two or three days a week. Tele-working will become the norm, not the exception.

Belgian Finance Center

Industry

> Reducing industry's fixed costs is an essential duty to help heal SMEs finances. Restricted operations and cashflow volatility, impress some urgency in lowering the rental costs. Governments could analyze a subsidy measure to significantly reduce enterprises rental payments.

> We've been taught that innovation and digitalization are core-centric abilities to succeed in economic recovery. Governments could lead catalyzing initiatives to advise, connect and fund SMEs related to new technologies, products, and services. In particular, public measures should actively support companies developing R&D health crisis projects.

Central Bank

> Monetary policy represents a broad-ranging tool to adapt and shape economic cycles. A temporary reduction on the interest rate as well as a decrease of the regulatory burden would stimulate a competitive lending landscape towards a wider economy.

Developed Markets (3/3)

DEVELOPED MARKET KEY MEASURES

IFCS

- Organization of TV shows and online webinars to explain and conscientize the SMEs, on the consequences of the pandemic.
- Foment policy recommendations discussions for those crisis- impacted SMEs.
- Conduct researches to produce informational reports on explaining how the financial sector and its related professionals, can support SMEs in the economic recovery.
- Act as a policy advisor node on SMEs financial related issues.

GOVERNMENT

- Apply extensions and exemptions on tax filings/payments, such as VAT, Social Security, Income Tax, Wealth Tax and other business-related taxes.
- Advanced refund of VAT.
- Help financial impacted SMEs to face their operating costs by providing direct financial aids.
- Allow employees to get unemployment benefits from the government for those ex-employees impacted by the lockdown.
- Ease fixed-term contracts for students and temporary jobs.
- Adopt bankruptcy support measures (aids, exemptions, debt renegotiations).

BANKING

- Grant concessional loans to help SMEs with liquidity, expansion plans, professional training, and general working capital support. Consider preferential rates by adopting a government-guaranteed schema.
- Concede from 3 to 6 months deferrals on pre-pandemic loans.
- Reduction of the bank's base rate to neutral figures, such as 0.1 per cent or equivalent.
- Local stock exchange to waive listing fees for social and sustainable debt instruments.

INDUSTRY

- Suspension of forced evictions for residential leases and commercial leases.
- Property owners to reduce rents by at least 75% for 5 months for those small business tenants.
- Financial support for companies carrying out investments or R&D projects for products helping to fight the health crisis: Co-fund up to 80% of costs for industrial research and experimental development.

Emerging Markets (1/5)

Note: ***Highlighted measures are support instruments used by several countries***

IFCs:

> The financial centers are fundamental players to help communities to navigate the global downturn and recovery. SMEs are identified as central pillars of a fast-paced and sustainable economic recovery. The IFCs could act as cutting-edge financing platforms by connecting: 1) data 2) marketplace 3) digital tools.

> Promoting e-services adoption on a variety of today's important sectors -like insurances-, could result in a faster and innovative solution to address the financing challenges of the SME sector

> Considering that financial inclusion is a priority item on the development agenda, IFCs could also act as a central vehicle to foster Fintech discussions and a central resourced Hub, where and financial institutions can co-create and test solutions under direct regulators' oversight.

Qatar Financial Centre (QFC) announced new support measures to offer relief to the 900 plus firms already registered on its platform. The measures were announced in line with the actions taken by the State of Qatar and various Qatari entities to provide support to the nation's economy and private sector in the light of the business risks posed by COVID-19.

The Ministry of Finance and the Qatar Central Bank, under the auspices of the State of Qatar, have been at the frontline of Qatar's response to weather and manage the economic impact of COVID-19, including the announcement of a QAR 75 billion stimulus package for businesses.

Qatar Financial Centre

GOVERNMENT, CENTRAL BANKS, REGULATORY AUTHORITIES, INDUSTRIES:

Government

> It's known that Fiscal aids are notable elements to promote -and sometimes shock- the overall economy. For example, a six months ***exemption on income tax and social security payments*** could result in a supportive scenario for SMEs. Especially, those companies related to the tourism, leisure, and hospitality industry. In addition, Property tax plays a key factor to consider as a waiver.

> Nowadays, there are several ongoing measures to support heavily damaged economic sectors. Nonetheless, it has been recently observed that Stimulus Packages increased the capital flow destined to stock exchanges instead of allocating into harmed industries.

> With the spirit of encouraging SMEs to part of the IV Industrial Revolution, Governments could promote Foreign Direct Investments in 4.0 companies related to damaged sectors like hospitality, tourism, accommodation and transportation.

> The Pandemic has set a variety of last-minute regulations that resulted in operating restrictions for several SMEs. This carried out a notable impact in enterprises P&Ls. In this sense, Governmental support toward different employment levels, should be considered as a primary tool to balance or neutralize a variety of frictions that the financial crisis caused. For example, the World Bank in association with other global institutions, created a Fund to support high qualified workers and assist certain unemployment cases.

Emerging Markets (2/5)

> **The Hong Kong Government has launched three rounds of measures totaling HK$287.5 billion to assist the affected industries and public.**
>
> Hong Kong FSDC

Government and Banking

> The financial crisis has increased the loan overdues, triggering substantial penalties and fees. This represents an urgent action point in terms of refinancing and lowering debt charges. In addition, the banking industry has a unique opportunity to reinforce SMEs on their working capital, which could represent a major lending initiative in the medium-long term run with direct impact in the real economy.
> It is also important to highlight that subsidies are a powerful Government policy to rapidly transfer resources to vulnerable sectors. This means, running a holistic subsidy campaign could rapidly remedy gaps in vulnerable activities at primary, secondary and tertiary economic sectors.

Industry

> There are several measures that could be implemented to stimulate the real economy. For example, rental waivers and deferrals for commercial tenants are topics to consider.
> With the aim of fostering Innovation and R&D activities, several public campaigns could be implemented to promote the adoption of innovative technology. Additionally, a significant reduction in processing fees (~50%) could be enacted to promote electronic payments

Central Bank

> Central Banks also play a key role through their monetary and regulatory policies. For instance, reducing the general interest rate as well as reducing the interest rate on Foreign Currency SWAPs, could have direct impact on the T-Bonds and also should inject capital flows into the economy.

> Another fundamental aspect is lowering the lending/financing ratio for financial institutions to increase the additional cashflow in the productive sector of the economy. Along the same lines, cash circulation could be stimulated by significantly reducing the fees associated with loans that are paid off early.

> Financial inclusion is a relevant subject to address through a set of monetary policies. At the same time, commercial banks should be encouraged to provide reliefs and ease of payments on those SMEs experiencing financial difficulty as a result of the pandemic.

Emerging Markets (3/5)

"The AIFC continues to evolve and adapt its infrastructure to lower market entry barriers while meeting international standards and, in response to the current COVID-19 crisis, it has intensified efforts to support SMEs. The AIFC has issued simplified procedures to obtain license for certain types of regulated activities and issued guidelines to companies carrying out regulated activities."

Astana International Financial Centre

'The Federal Government has adopted a large-scale financial and non-financial aid package, aimed at the most affected industries, the business, including SMEs, households and individuals. The total cost of the fiscal package is currently estimated at 3.4 percent of GDP".

Moscow International Financial Centre

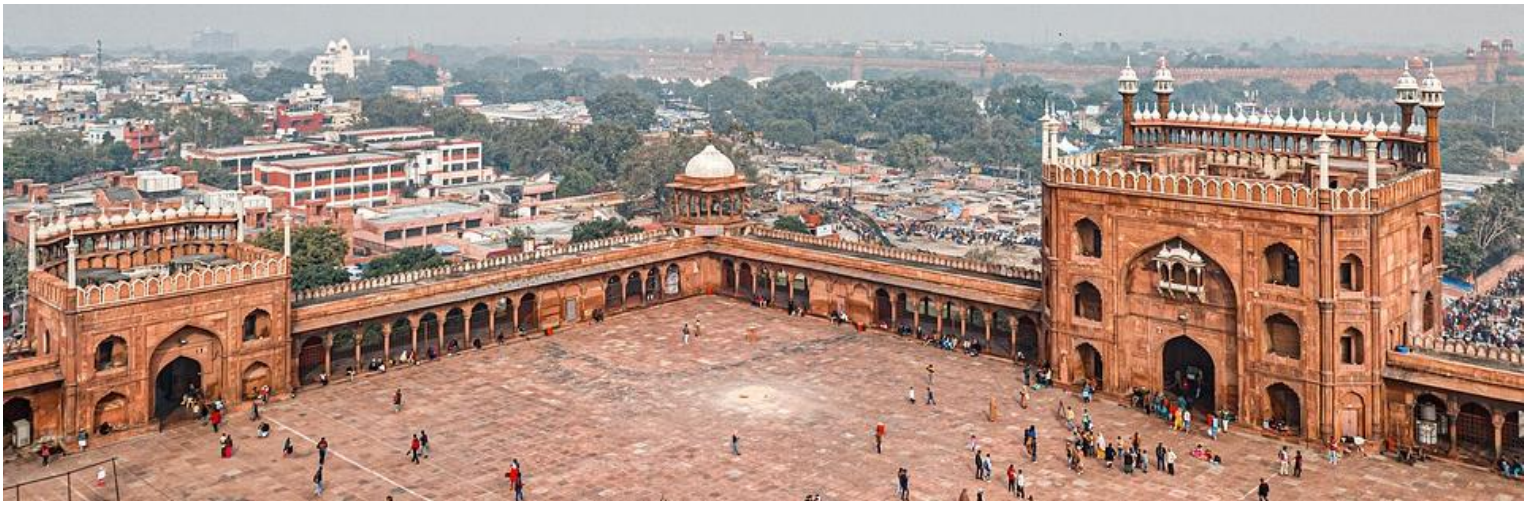
"€120bn guaranteed loans have been granted by the banks to support 550 000 SMEs, while the French recovery plan dedicates €40 bn to SMEs' solvability. New generation of investment funds has been launched, driven by insurance companies and BPI France (French public investment bank)".

Emerging Markets (4/5)

EMERGING MARKET KEY MEASURES

IFCS

- Simplify procedures to obtain license for certain types of regulated activities.
- Promotion of e-services on the insurance sector.
- Promotion of virtual stock-market related meetings.
- Support extension for filings requests toward Governments.
- Strengthen the digitalization processes for firms' incorporation.
- Conduct surveys to assess the impacts of the COVID-19 crisis on the activities of its business community.
- Support the development of SME financing platform.
- Support the business community toward key job requests diffusion.



GOVERMENT

- Taxes general exemption for SMEs (6 months).
- Decrease Income tax by a 100% for all 2021.
- Exemption on gasoline exports.
- Food and medical goods exempted from customs duties.
- Hospitality and tourism sector exempted paying from utilities services.
- Financial support to manufacturers SME.
- Foreign Direct Investment promotion
- Government funds invested in the stock exchange.
- E-services and teleworking promotion.
- Subsidy for the Aviation, Passenger Transport Sector and essential industries.

Emerging Markets (5/5)

EMERGING MARKET KEY MEASURES

> **"Rwanda has laid out an economic recovery plan to safeguard economic resilience against COVID-19 shocks and adverse effects. Government and the local financial sector have been at the forefront of this, introducing several measures to meet the needs of the private sector- including the set-up of a 2-year $100Mln loan refinancing scheme for SMEs; loan restructuring provisions totaling $800Mln to affected businesses and individuals; and fiscal relief policies on tax payments. Focus is on scaling social protection and private sector resilience"**
>
> Kigali International Financial Center

BANKING

- Grant a 90 days delay on debt payments to those financially impacted SMEs.
- Impulse a lending program for SMEs, where the loans are issued for working capital aids.
- Work on a short-term lending program for SMEs to support their financial sustainability and increase the lending limit.
- Ease access to financing through government-guaranteed credit lines.
- Provide a warranty to cooperatives that purchase livestock or acquire equipment for food production.
- Subsidy the 50% of the factoring fee for SMEs invoices.

INDUSTRY

- Apply rental waivers for tenants and industrial estates.
- Provide a six-month rental subsidy to local recycling enterprises.
- Implementation of a 3-month rent waiver for retail outlets and 6-month rental discounts for SME warehouse tenants.
- For those eligible tenants of government properties, reduce the rentals by 50% for a period of 6 months.
- Offering 6 months of fees and rent reduction for cruise lines and existing tenants of the Cruise Terminals.
- Promote technology adoption in SMEs.

Supranationals Support Measures

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

The EBRD plans to initiate a new technical assistance project to provide SMEs in the countries within EBRD Region (the “CoOs”) with necessary and practical guidance on identifying the best course of action in circumstances of financial distress and business uncertainty, thereby building business resilience and ensuring continuity (the “Project”). This guidance will be tailored to businesses, particularly micro and small enterprises.

The Project will provide EBRD SME clients, as well as a wider SME network in CoOs, with the necessary legal and business advice to identify the best course of action in view of limited liquidity and financial distress and the changing business environment. This advice will be tailored to businesses, particularly micro and small enterprises.

The COVID-19 pandemic has reduced the funding of many firms, especially SMEs. In response, a number of countries in both Western Europe and the EBRD regions have scaled up state credit guarantee schemes to mitigate this urgent liquidity problem and stimulate an economic recovery. This note highlights the design and implementation aspects of these schemes. It suggests that this instrument, if well designed and implemented, can be an efficient crisis response mechanism, as it relies on the banking sector to channel financing to firms, while safeguarding the soundness of the banking sector by partly assuming the risk of on-lending.

WORLD BANK

In response to COVID-19 the World Bank has come up with several support measures, such as debt finance, employment support, tax, business costs, other finance, business advice, demand, and business climate.

The support measures for countries are realized via different types of instruments, such as:

> New lending – under concessional terms;
> Support for informal or self-employed workers;
> Unemployment benefits;
> Reduced import restrictions (NTBs, duties) on intermediate goods;
> Reduction or waiver of administrative and government fees;
> Capital buffer safeguards requirements on banks and central banks’ actions to induce commercial banks to increase lending to SMEs, such as lowering capital requirements, delayed repayments, deferral of payments, restructuring and rescheduling, existing lending with reduced or no interest, and/or lower collateral requirements;
> Provide wage subsidies (can be broad, or targeted – e.g., apprentices) as alternative to direct payments to individuals, grants, corporate tax – rate reductions, credits, waivers, and/or deferrals, payroll/social security/VAT taxes/land taxes - rate reductions, credits, waivers, and/or deferrals, streamlined regulations, reduced compliance requirements (including no face to face, only electronic);
> Fewer/no inspections, rent/leasing - reductions (if government is landlord);
> Direct payment or indirect (e.g., tax concession for suppliers/ landlords);
> Utilities – reduction of direct or indirect (e.g., tax concession for suppliers/landlords) fees and payments;
> Credit guarantees - new schemes, more generous guarantee levels,
> Other Public Expenditure Programs;
> Cap on layoffs;
> Support for firms which need to close or have reduced their activities, unemployment benefits, and others.

ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

The AIIB has also been supportive to the SME sector internationally during the COVID-19 pandemic. For example, to support Micro, Small and Medium Enterprises (MSMEs) in Kyrgyzstan in response to and during the recovery from the COVID-19 crisis, AIIB proposed Kyrgyz Emergency Support for Private and Financial Sector Project, which aims to alleviate SMEs' working capital shortages and liquidity constraints in response to the COVID-19 crisis and to strengthen the financial sector infrastructure to accelerate the recovery from the pandemic.

Also, the AIIB Board of Directors has approved loans totaling USD500 million to two development banks in Turkey, backed by a government guarantee, to alleviate liquidity constraints faced by Turkish companies in infrastructure and other productive sectors as a result of the COVID-19 pandemic. By supporting Turkey's efforts to supply working capital to the real economy, the project will help increase access to vital liquidity and mitigate distress and supply chain disruptions at this challenging time. The financing will improve the resilience of small and medium companies which are the foundation of the Turkish economy and crucial for economic recovery and long-term sustainable development.

The AIIB has created the CARES Program (Program) to mitigate the adverse impacts of the COVID-19 on the health, incomes, and economic opportunities of Kazakhstan population.

ASIAN DEVELOPMENT BANK (ADB)

The pricing, maturity and denominated currency of the loans that ADB provides to its developing member countries (DMCs), especially the poorer countries, are crucial elements in designing financial support. While such support can provide immediate fiscal space to enable countries to respond to a crisis, they also have to mitigate potential repayment risks for borrowers through provision of carefully targeted longer tenor local currency loans.

In response to the Asian financial crisis, the Thailand Rural Enterprise Credit Project moved quickly to offer short-term and working capital subloans, shifting its focus away from its original purpose of providing medium and long-term loans to rural enterprises. In the case of the Philippines SME Development Support Project, IED considered that the growth target should have been adjusted more rapidly during implementation to align the project more closely with developments in the overall macroeconomic environment.

In ADB's Kazakhstan SME investment program, providing credit lines to SMEs was not enough to achieve the objective of SME development; financial infrastructure deficiencies, supervisory weaknesses, and the overall health of the finance sector also required attention. In a program loan for SME development in Viet Nam, the decrees and resolutions that were issued to improve the business environment for the SME sector and to enhance SME access to finance were accompanied by training programs to ensure effective implementation and sustainability. A program grant provided to Lao PDR for SME development included trade policy measures to reduce transaction costs. It also incorporated an outreach strategy to increase SME participation in trade, particularly for those SMEs involved in the supply chain. The program in Vietnam included a legal framework for logistics services, including multi-modal transport. A program in the Kyrgyz Republic learned that, to support SMEs engaged in trade, access to the pre-custom single electronic window needed to be extended beyond the capital.

In March 2020, ADB made available $200 million under the SCFP for companies manufacturing and distributing medicines and other items needed to combat COVID-19. The ADB Trade Finance Program (TFP) also has an important role to play. Approximately 68% of TFP transactions by number support SMEs. The TFP's response to the global financial crisis identified 85 issuing banks from 16 ADB DMCs for inclusion in the TFP, although none of the issuing banks that were added in response to the global financial crisis were in ADB Pacific SIDS. The urgent nature of ADB's response to the COVID-19 pandemic suggests that rapid deployment of increased TFP support will take place through the TFP's existing network of issuing and confirming banks, with a program expansion to include domestic trade and local currency financing.

Multilateral Development Banks have focused almost exclusively on providing support to MSMEs indirectly though financial intermediaries, because this is both efficient and effective. In Bolivia and Uruguay, for example, where Inter-American Investment Corporation has provided loans mostly in US dollar denomination, companies have identified the lack of loans in local currency as a disadvantage, compared to loans from local financial intermediaries.

Economic Recovery from the Pandemic Project - Regulation Workstream (1/2)

SMES FINANCE: HOW REGULATORS CAN ENSURE SPEEDY AND SUSTAINABLE RECOVERY FROM COVID-19

Since the vast majority of businesses in the world are SMEs and since most jobs are created by these businesses it is natural and logical to think or believe that any recovery of the world's economy after the pandemic will be centered around them. Regulatory interventions tailored for SMEs could help ensure that economic recovery is both speedy and sustainable.

Based on members' responses and to support rapid recovery from the crisis, we recommend that governments consider the following principles as they devise regulatory interventions related to SMEs. Naturally, different conditions apply in different markets, and some of these recommendations will be more applicable in some markets than others.

> **Ensure gradual return to normal**

> Once the pandemic has come to an end it is important that regulators don't rush to stop working with measures that had been made during the pandemic period. Measures such as tax reliefs, postponement of loan installments, lower interest rates on loans, and bank liquidity guarantees for SMEs should be kept in place for an immediate kick off of the recovery period and for this recovery to be rapid and sustainable.

> **Reduce tariffs as far as possible to help SMEs grow by trading internationally**

> Exports of goods and services is one way by which SMEs can grow their revenues and profits. Although SMEs make up 90% of world businesses their exports in developing economies account for only 7.6% of manufacturing sales and 34% in developed countries, according to World Trade Organization (WTO). Tariff restrictions are among the biggest barriers hindering SMEs' ability to participate in trade and are a bigger hindrance for SMEs than for large firms, so claims the WTO.

> It is essential to reduce tariffs should we want SMEs to participate more effectively in a rapid and sustainable recovery of the global economy in post COVID era.

> **Facilitate gathering operational and financial information for commercial and development banks to support SMEs' credit applications**

> SMEs have a significant role in making such information ready for dispatch upon request when applying for credit. Nevertheless, SMEs often fall in procrastination to have records of information available when requested due to lack of internal procedures and disorganization. According to the International Monetary Fund (IMF), "SMEs face several nonfinancial barriers related to their own capacities, including lack of financial accounts and unavailability of reliable credit histories." Regulators could intervene by imposing a requirement on SMEs to have their financial and operational records routinely collected and documented. This procedure could expedite SMEs' credit application process by banks and other credit offering institution and, thus, speed up access to funds.

Economic Recovery from the Pandemic Project - Regulation Workstream (2/2)

> **Request credit institutions to design special products tailored for SMEs**
>
> > SMEs require appropriate access to survive and grow. This access has never been more important than nowadays, with COVID-19 pandemic having harsh hits on businesses, particularly SMEs. With the fact that even during normal economic circumstances in pre-COVID-19 times SMEs suffered a great deal when applying for credit, designing special products for SMEs could save all parties involved a lot of hassle. Regulators can request crediting institutions to design such products taking into account all risks associated with them. Prior to approving the products both crediting institutions and regulators can then jointly work to find ways to address those risks and find ways to mitigate them.

> **Consider expanding adoption of World Bank's Credit Guarantee Scheme (CGS) for SMEs**
>
> > A credit guarantee scheme can be viewed as risk mitigation mechanism or method used to transfer a portion of the risk associated with lending SMEs to a third party. The latter can be a government that would absorb a portion of a lender's loss should the SME defaults to repay its loan. According to the Organization for Economic Cooperation and Development (OECD) almost 100 countries around the world implementing more than CGSs. According to the World Bank, however, there was no common set of standards or principles to govern these schemes. This led to a cooperation between the World Bank and First Initiative to develop a tool of 16 principles intended to become "the standard for effectively and efficiently establishing and running public CGSs for SMEs around the world."
>
> > This 16-principles standard addresses four areas: legal and regulatory framework, corporate governance and risk management, operational framework, and monitoring & evaluation.

> **Remove barriers that hinder SMEs' expansion into new markets**
>
> > Removing barriers that hinder SMEs' expansion into the global trade market would certainly have a positive impact on the ability of SMEs to trade globally, which could have constructive effects on their growth. These barriers may come in several forms such as financial, logistical, procedural, and operational. The WTO estimates that 50% of SMEs' applications for credit are rejected compared to only 7% for multinational companies. They face "more credit rationing, higher screening, and higher interest rates" than large corporations. Logistics are also more expensive for SMEs than for bigger companies. For example, SMEs in Latin America endure 24-27% more domestic logistics costs than large firms.

> **Facilitate SMEs' access to funding through capital markets and other sectors**
>
> > Funds sourced through capital markets could be much cheaper for SMEs. However, the regulatory framework has not been as friendly as it is to large firms when it comes to raising capital on public markets. As a result, SMEs have always had to turn more expensive sources of financing, including bank loans and their own cash savings.
>
> > Due to that facts that SMEs make up the vast majority of world businesses and create most jobs it is time regulators worked to develop a method or a mechanism to make SMEs access to capital markets easier.

Appendix

SURVEY QUESTIONS TO ALL IFCS

> Recent actions on (your) IFC support for SMEs, in direct response to COVID-19: IFC SME Support Initiatives - with financial data as appropriate.

> Recent actions on national initiatives to support SMEs, in direct response to COVID-19: Please provide overview detail on national SME Support Initiatives, with a focus on the actions or programs delivered by: (i) Government; (ii) Central bank; (iii) Regulatory authorities; (iv) Industry; (v) other - with financial data to be provided for all bodies listed above, as appropriate.

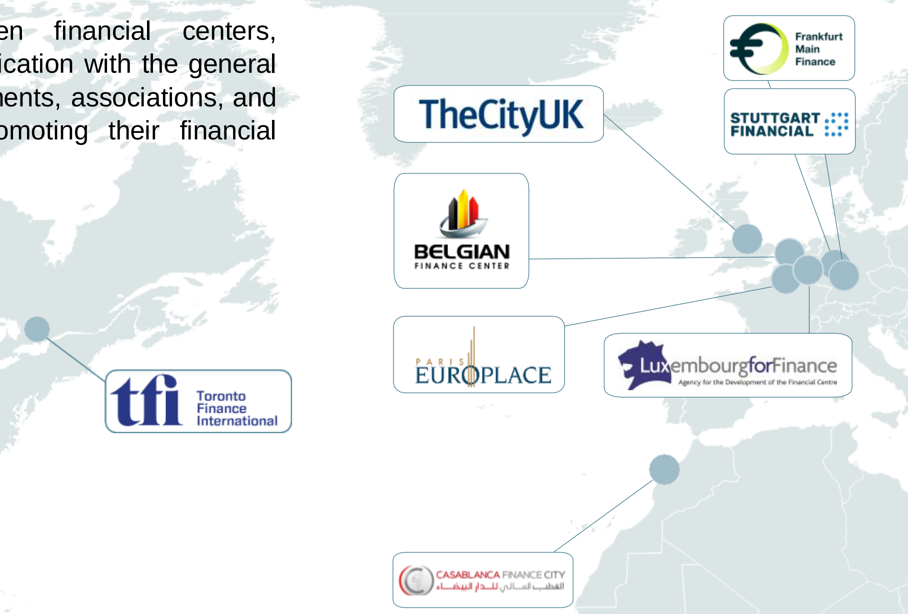
> If not already described in 1 and 2 above - which support mechanisms have been introduced to support SMEs during the COVID-19 pandemic? Please highlight all that apply: (i) new targeted relief programs; (ii) updated existing support programs; (iii) regulatory relief measures; (iv) tax relief measures; (v) reporting relief measures; (vi) other (please specify).

> Following on from question 3, please provide the following information on the relevant policy document(s):

Policy/ programme name	Date of introduction	Date of last update (if applicable)	Name of the issuing institution	Link (if available)

WAIFC worldwide

WAIFC facilitates cooperation between financial centers, exchange of best practices and communication with the general public. WAIFC members are city governments, associations, and similar institutions developing and promoting their financial centers.



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CONTINENT	CITY	ORGANISATION	WEBSITE	TWITTER	EMAIL
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	London	TheCityUK	https://www.thecityuk.com/	@TheCityUK	info@thecityuk.com
	Luxembourg	LFF	http://www.luxembourgforfinance.com/en	@LuxFinance	lff_market_intelligence@lff.lu
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Asia/Pacific	Nur-Sultan	AIFC	https://aifc.kz/	@AIFC_KZ	info@aifc.kz
	Busan	BFC	https://www.kbfc.or.kr/eng	@BusanFinanceCtr	info@kbfc.or.kr
	Hong Kong	FSDC	http://www.fsdc.org.hk/en	@FSDCHK	enquiry@fsdc.org.hk
	Tokyo	FinCity.Tokyo	https://fincity.tokyo/	@FinCityTokyo	contact@fincity.tokyo
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	Doha	QFC	https://www.qfc.qa/en	@QFCAuthority	contact@qfc.qa
Americas	Toronto	TFI	https://www.tfi.ca/	@TFI_Canada	info@tfi.ca
Africa	Casablanca	CFC	http://www.casablancafinancecity.com/	@CasaFinanceCity	contact@cfca.ma
	Mauritius	EDB Mauritius	http://www.edbmauritius.org/	@EDBMauritius	contact@edbmauritius.org
	Kigali	Rwanda Finance	http://www.rfl.rw/	@Kigali_IFC	info@rfl.rw


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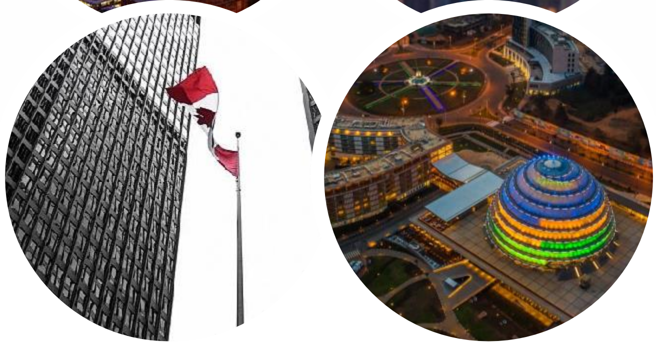

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